

CITY OF KALONA, IOWA

INDEPENDENT AUDITOR'S REPORTS  
FINANCIAL STATEMENTS  
SUPPLEMENTARY AND OTHER INFORMATION  
SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2016

CITY OF KALONA, IOWA  
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CITY OF KALONA, IOWA  
OFFICIALS  
June 30, 2016

(Before January, 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ken Herington	Mayor	January, 2016
Jenelle Bender	Council Member	January, 2016
Greg Schmidt	Council Member	January, 2016
Mark Robe	Council Member	January, 2018
Craig Spitzer	Council Member	January, 2018
Joe Schmidt	Council Member	January, 2018
Ryan Schlabaugh	City Administrator	Indefinite
Karen Christner	City Clerk	Indefinite

(After January, 2016)

Ken Herington	Mayor	January, 2020
Jenelle Bender	Council Member	January, 2020
Greg Schmidt	Council Member	January, 2020
Mark Robe	Council Member	January, 2018
Craig Spitzer	Council Member	January, 2018
Joe Schmidt	Council Member	January, 2018
Ryan Schlabaugh	City Administrator	Indefinite
Karen Christner	City Clerk	Indefinite

# Gronewold, Bell, Kyhnn & Co. P.C.

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Kalona, Iowa, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Honorable Mayor and  
Members of the City Council

### **Basis for Qualified Opinion on the Aggregate Remaining Fund Information**

The financial statements do not include financial data for the City's legally separate component units, Kalona Library Foundation and Friends of the Kalona Library. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the cash basis net position, receipts and disbursements of the aggregate remaining fund information would have increased as summarized in Note 1.

### **Qualified Opinion**

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on the Aggregate Remaining Fund Information" paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the aggregate remaining fund information of the City of Kalona, as of June 30, 2016, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

### **Unmodified Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities and each major fund of the City of Kalona, as of June 30, 2016, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

### **Basis of Accounting**

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

### **Other Matters**

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Kalona's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2015 (which are not presented herein) and expressed qualified and unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

To the Honorable Mayor and  
Members of the City Council

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions, on pages 21 through 25 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2016 on our consideration of the City of Kalona's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Kalona's internal control over financial reporting and compliance.

*Garrett, Ben, Kyhan & W.P.C.*

Atlantic, Iowa  
December 15, 2016

CITY OF KALONA, IOWA  
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION

As of and for the year ended June 30, 2016

		Program Receipts	
	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions, and Restricted Interest</u>
Functions/Programs:			
Governmental activities:			
Public safety	\$ 185,464	\$ 9,551	\$ --
Public works	392,235	150	404,834
Culture and recreation	469,280	104,368	59,996
Community and economic development	384,179	--	--
General government	227,687	4,207	--
Debt service	249,305	--	34
Total governmental activities	<u>1,908,150</u>	<u>118,276</u>	<u>464,864</u>
Business type activities:			
Water	329,485	334,123	--
Sewer	422,325	343,636	--
Nonmajor	54,249	98,668	--
Total business type activities	<u>806,059</u>	<u>776,427</u>	<u>--</u>
Total	<u>\$ 2,714,209</u>	<u>\$ 894,703</u>	<u>\$ 464,864</u>
General Receipts and Transfers:			
Property and other city tax levied for:			
General purposes			
Debt service			
Tax increment financing			
Local option sales tax			
Grants and contributions not restricted to a specific purpose			
Unrestricted interest on investments			
Debt proceeds			
Miscellaneous			
Transfers			
Total general receipts and transfers			
Change in cash basis net position			
Cash basis net position beginning of year			
Cash basis net position end of year			

(continued next page)

Program Receipts Capital Grants, Contributions, and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Governmental Activities	Business Type Activities	Total
\$ --	\$ ( 175,913)	\$ --	\$ ( 175,913)
--	12,749	--	12,749
--	( 304,916)	--	( 304,916)
--	( 384,179)	--	( 384,179)
79,574	( 143,906)	--	( 143,906)
--	( 249,271)	--	( 249,271)
<u>79,574</u>	<u>( 1,245,436)</u>	<u>--</u>	<u>( 1,245,436)</u>
--	--	4,638	4,638
--	--	( 78,689)	( 78,689)
--	--	44,419	44,419
<u>--</u>	<u>--</u>	<u>( 29,632)</u>	<u>( 29,632)</u>
<u>\$ 79,574</u>	<u>( 1,245,436)</u>	<u>( 29,632)</u>	<u>( 1,275,068)</u>
	868,677	--	868,677
	12,512	--	12,512
	304,997	--	304,997
	258,944	--	258,944
	137,869	--	137,869
	16,009	957	16,966
	--	128,243	128,243
	42,013	11,250	53,263
	19,800	( 19,800)	--
	<u>1,660,821</u>	<u>120,650</u>	<u>1,781,471</u>
	415,385	91,018	506,403
	<u>1,848,959</u>	<u>990,637</u>	<u>2,839,596</u>
	<u>\$ 2,264,344</u>	<u>\$ 1,081,655</u>	<u>\$ 3,345,999</u>



CITY OF KALONA, IOWA  
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION - Continued

As of and for the year ended June 30, 2016

		<u>Program Receipts</u>
		Operating Grants, Contributions, and Restricted
	<u>Disbursements</u>	<u>Charges for</u> <u>Service</u>
		<u>Interest</u>
Cash Basis Net Position		
Restricted:		
Nonexpendable:		
Cemetery perpetual care		
Expendable:		
Streets		
Urban renewal projects		
Debt service		
Other purposes		
Unrestricted		
Total cash basis net position		

The accompanying notes are an integral part of these statements.

Program Receipts Capital Grants, Contributions, and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Governmental Activities	Business Type Activities	Total
	\$ 101,117	\$ --	\$ 101,117
	311,415	--	311,415
	261,821	--	261,821
	99,882	--	99,882
	277,671	--	277,671
	<u>1,212,438</u>	<u>1,081,655</u>	<u>2,294,093</u>
	<u>\$ 2,264,344</u>	<u>\$ 1,081,655</u>	<u>\$ 3,345,999</u>

CITY OF KALONA, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2016

	<u>General</u>	<u>Special Revenue Urban Renewal Tax Increment</u>
Receipts:		
Property tax	\$ 745,661	\$ --
Tax increment financing	--	304,997
Other city tax	21,448	--
Licenses and permits	12,652	--
Use of money and property	26,356	--
Intergovernmental	252,386	--
Charges for service	106,950	--
Miscellaneous	168,209	--
Total receipts	<u>1,333,662</u>	<u>304,997</u>
Disbursements:		
Operating:		
Public safety	185,464	--
Public works	160,525	--
Culture and recreation	424,219	--
Community and economic development	67,107	223,907
General government	211,408	--
Debt service	--	--
Total disbursements	<u>1,048,723</u>	<u>223,907</u>
Excess (deficiency) of receipts over (under) disbursements	284,939	81,090
Other financing sources (uses):		
Operating transfers in	--	--
Operating transfers out	( 71,200)	--
Total other financing sources (uses)	<u>( 71,200)</u>	<u>--</u>
Net change in cash balances	213,739	81,090
Cash balances beginning of year	<u>1,099,816</u>	<u>180,731</u>
Cash balances end of year	<u>\$ 1,313,555</u>	<u>\$ 261,821</u>

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Special Revenue				
Local Option Sales	Road Use	Debt Service	Nonmajor	Total
\$ --	\$ --	\$ 12,327	\$ 99,891	\$ 857,879
--	--	--	--	304,997
258,944	--	185	1,677	282,254
--	--	--	--	12,652
--	--	34	--	26,390
--	292,018	--	--	544,404
--	--	--	--	106,950
--	--	--	--	168,209
<u>258,944</u>	<u>292,018</u>	<u>12,546</u>	<u>101,568</u>	<u>2,303,735</u>
--	--	--	--	185,464
--	210,773	--	20,937	392,235
--	--	--	45,061	469,280
93,165	--	--	--	384,179
--	--	--	16,279	227,687
--	--	249,305	--	249,305
<u>93,165</u>	<u>210,773</u>	<u>249,305</u>	<u>82,277</u>	<u>1,908,150</u>
165,779	81,245	( 236,759)	19,291	395,585
--	--	237,200	--	237,200
( 146,200)	--	--	--	( 217,400)
<u>( 146,200)</u>	<u>--</u>	<u>237,200</u>	<u>--</u>	<u>19,800</u>
19,579	81,245	441	19,291	415,385
<u>208,878</u>	<u>230,170</u>	<u>99,441</u>	<u>29,923</u>	<u>1,848,959</u>
<u>\$ 228,457</u>	<u>\$ 311,415</u>	<u>\$ 99,882</u>	<u>\$ 49,214</u>	<u>\$ 2,264,344</u>

CITY OF KALONA, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES - Continued  
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2016

	<u>General</u>	<u>Special Revenue Urban Renewal Tax Increment</u>
Cash Basis Fund Balances		
Nonspendable - Cemetery perpetual care	\$ 101,117	\$ --
Restricted:		
Streets	--	--
Urban renewal purposes	--	261,821
Debt service	--	--
Other purposes	--	--
Unassigned	<u>1,212,438</u>	<u>--</u>
Total cash basis net assets	<u>\$ 1,313,555</u>	<u>\$ 261,821</u>

The accompanying notes are an integral part of these statements.

<u>Special Revenue Local Option Sales</u>	<u>Road Use</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
\$ --	\$ --	\$ --	\$ --	\$ 101,117
--	311,415	--	--	311,415
--	--	--	--	261,821
--	--	99,882	--	99,882
228,457	--	--	49,214	277,671
<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,212,438</u>
<u>\$ 228,457</u>	<u>\$ 311,415</u>	<u>\$ 99,882</u>	<u>\$ 49,214</u>	<u>\$ 2,264,344</u>

CITY OF KALONA, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS

As of and for the year ended June 30, 2016

	Enterprise Funds			
	Water	Sewer	Garbage	Total
Operating receipts:				
License and permits	\$ 900	\$ 400	\$ --	\$ 1,300
Charges for services	333,223	343,236	98,668	775,127
Total operating receipts	334,123	343,636	98,668	776,427
Operating disbursements:				
Business type activities	263,305	168,781	54,249	486,335
Total operating disbursements	263,305	168,781	54,249	486,335
Excess of operating receipts over operating disbursements	70,818	174,855	44,419	290,092
Non-operating receipts (disbursements):				
Interest on investments	648	309	--	957
Miscellaneous	9,380	1,870	--	11,250
Debt proceeds	--	128,243	--	128,243
Debt service	( 66,180)	( 161,091)	--	( 227,271)
Capital projects	--	( 92,453)	--	( 92,453)
Net non-operating receipts (disbursements)	( 56,152)	( 123,122)	--	( 179,274)
Excess (deficiency) of receipts over (under) disbursements	14,666	51,733	44,419	110,818
Other financing sources (uses):				
Operating transfers out	--	--	( 19,800)	( 19,800)
Total other financing sources (uses)	--	--	( 19,800)	( 19,800)
Change in cash balances	14,666	51,733	24,619	91,018
Cash balances beginning of year	632,584	274,709	83,344	990,637
Cash balances end of year	\$ 647,250	\$ 326,442	\$ 107,963	\$ 1,081,655
Cash Basis Fund Balances				
Unrestricted	\$ 647,250	\$ 326,442	\$ 107,963	\$ 1,081,655
Total cash basis fund balances	\$ 647,250	\$ 326,442	\$ 107,963	\$ 1,081,655

The accompanying notes are an integral part of these statements.

CITY OF KALONA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Kalona, Iowa is a political subdivision of the State of Iowa located in Washington County. It was first incorporated in 1879 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities and garbage services for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Kalona has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

Excluded Component Units

The City has two component units. The Kalona Library Foundation, which is a non-profit corporation that is legally separate, is a component unit because it has the potential to provide benefits to the City of Kalona Library. The Friends of the Kalona Library is a separate non-profit organization created for the sole purpose of raising funds to support the Kalona Library. The City has elected to exclude the financial information of its component units from these financial statements. Both component units should be blended into the Special Revenue Funds of the City of Kalona.

Following is a summary of the approximate cash basis fund balances, receipts and disbursements of the aggregate component units as of and for the year ended June 30, 2016:

Fund Balance	\$ <u>43,603</u>
Receipts	\$ <u>3,252</u>
Disbursements	\$ <u>1,226</u>

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Washington County Joint E911 Service Board and Washington County Assessor's Conference Board.



CITY OF KALONA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B. Basis of Presentation

Government-wide Financial Statements

The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

CITY OF KALONA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Local Option Sales Fund is utilized to account for the collection and use of local option sales tax.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

Enterprise:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

CITY OF KALONA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

NOTE 2 - CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

CITY OF KALONA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

NOTE 3 - NOTES PAYABLE

Annual debt service requirements to maturity for general obligation capital loan notes and revenue notes are as follows:

Year Ending June 30,	General Obligation Capital Loan Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 70,000	\$ 15,810	\$ 162,000	\$ 61,418	\$ 232,000	\$ 77,228
2018	75,000	14,445	166,000	58,207	241,000	72,652
2019	80,000	12,908	170,000	54,916	250,000	67,824
2020	85,000	11,187	175,000	51,539	260,000	62,726
2021	85,000	9,275	180,000	48,066	265,000	57,341
2022-2026	285,000	15,000	765,000	186,308	1,050,000	201,308
2027-2031	--	--	529,000	120,148	529,000	120,148
2032-2036	--	--	461,000	57,808	461,000	57,808
2037-2039	--	--	178,000	10,770	178,000	10,770
	<u>\$ 680,000</u>	<u>\$ 78,625</u>	<u>\$ 2,786,000</u>	<u>\$ 649,180</u>	<u>\$ 3,466,000</u>	<u>\$ 727,805</u>

Revenue Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$1,067,000 in water revenue notes issued in August, 2003. Proceeds from the notes provided financing for the repair and improvement of the water system. The notes are payable solely from water customer net receipts and are payable through 2024. Annual principal and interest payments on the notes are expected to require less than 91 percent of the net receipts. The total principal and interest remaining to be paid on the notes is \$545,055. For the current year, principal and interest paid and total customer net receipts were \$64,783 and \$70,818, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$2,827,000 in sewer revenue notes issued in December, 2003, November, 2008 and October, 2014. Proceeds from the notes provided financing for the repair and improvement of the sewer system. The notes are payable solely from sewer customer net receipts and are payable through 2039. Annual principal and interest payments on the notes are expected to require less than 90 percent of the net receipts. The total principal and interest remaining to be paid on the notes is \$2,890,125. For the current year, principal and interest paid and total customer net receipts were \$157,826 and \$174,855, respectively.

CITY OF KALONA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

NOTE 3 - NOTES PAYABLE - Continued

The resolutions providing for the issuance of the revenue notes include the following provisions.

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b. Sufficient transfers shall be made into a separate and special fund to pay current expenses. The fund shall be known as the Sewer/Water Utility Operation and Maintenance Fund. There shall be deposited in the fund each month an amount sufficient to meet the current expenses of the month plus an amount equal to 1/12 of expenses payable on an annual basis such as insurance.
- c. Moneys shall next be disbursed to a separate and special fund to pay principal of and interest on the Notes and Parity Obligations known as the Sewer/Water Revenue Note Principal and Interest Sinking Fund (the "Sinking Fund"). The required amount to be deposited in the Sinking Fund in any month shall be an amount equal to 1/6 of the installment of interest coming due on the next payment and 1/12 of the installment of principal coming due on the next payment date.

NOTE 4 - PENSION PLAN

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except for members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

CITY OF KALONA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

NOTE 4 - PENSION PLAN - Continued

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%.

The City's contributions to IPERS for the year ended June 30, 2016 were \$38,533.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$305,943 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was 0.006193%, which was an increase of 0.000523% from its proportion measured as of June 30, 2014.

CITY OF KALONA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

NOTE 4 - PENSION PLAN - Continued

For the year ended June 30, 2016 the City collective pension expense, collective deferred outflows and collective deferred inflows totaled \$25,801, \$58,820 and \$71,238, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of inflation (effective June 30, 2014)	3.00% per annum.
Rate of salary increase (effective June 30, 2010)	4.00% to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other Real Assets	2	6.24
Cash	1	(0.71)
Total	100%	

CITY OF KALONA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

NOTE 4 - PENSION PLAN - Continued

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
City's proportionate share of the net pension liability	\$ 535,652	\$ 305,943	\$ 112,053

IPERS Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

NOTE 5 - COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and comp time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and comp time payable to employees at June 30, 2016 is \$16,534 for vacation and \$9,342 for comp time, for a total liability of \$25,876. This liability has been computed on rates of pay in effect at June 30, 2016.

NOTE 6 - RISK MANAGEMENT

The City of Kalona is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees' and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.



CITY OF KALONA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

NOTE 7 - INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	General	\$ 71,200
	Special Revenue	
	LOST	146,200
	Enterprise	
	Garbage	19,800
		<u>\$ 237,200</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

NOTE 8 - SERVICE AGREEMENTS

The City has an agreement with Washington County to obtain police protection for its citizens. The City paid \$79,724 for services during the year ended June 30, 2016, and approved an agreement in the amount of \$84,749 for the year ending June 30, 2017.

NOTE 9 - CONDUIT DEBT OBLIGATION

On July 11, 2005, Facility Revenue Bonds, Iowa Mennonite School Project, in the amount of \$1,300,000 were issued. These revenue bonds were issued for the purpose of financing the cost of constructing, equipping and furnishing a fine arts facility on the Iowa Mennonite School Campus. These bonds are a special limited obligation of the City and shall not be payable from or charged upon any funds other than Loan Repayments made by the Iowa Mennonite School, a Tax Exempt Organization. The bonds do not constitute a debt of the City within any constitutional or statutory limitation.

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: The City operates a single-employer health benefit plan which provides medical benefits for employees and retirees. There are 9 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical benefits are provided through a fully-insured plan with a commercial insurance carrier. Retirees under age 65 pay the same premium for the medical benefits as active employees.

CITY OF KALONA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (OPEB) - Continued

Funding Policy: The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$672 for single coverage and \$1,540 for family coverage. For the year ended June 30, 2016, the City contributed \$64,755 and plan members eligible for benefits contributed \$6,277 to the plan.

NOTE 11 - CAPITAL PROJECTS FUND

The City uses the General Fund, general government function, and Urban Renewal Tax Increment Fund, community and economic development function, to account for the resources used in the acquisition and construction of capital facilities. These expenditures should be budgeted and reported under the Capital Projects Fund, capital projects function. The City's total capital projects expenditures for the year ended June 30, 2016 were \$211,185.

NOTE 12 - CONTINGENCY

Subsequent Event

The City has evaluated all subsequent events through December 15, 2016, the date the financial statements were available to be issued.

\* \* \*

## OTHER INFORMATION

CITY OF KALONA, IOWA  
BUDGETARY COMPARISON SCHEDULE  
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL  
FUNDS AND PROPRIETARY FUNDS  
OTHER INFORMATION

Year ended June 30, 2016

	<u>Governmental Funds Actual</u>	<u>Proprietary Funds Actual</u>	<u>Total</u>
Receipts:			
Property tax	\$ 857,879	\$ --	\$ 857,879
Tax increment financing	304,997	--	304,997
Other city tax	282,254	--	282,254
Licenses and permits	12,652	1,300	13,952
Use of money and property	26,390	957	27,347
Intergovernmental	544,404	--	544,404
Charges for service	106,950	775,127	882,077
Miscellaneous	168,209	11,250	179,459
Total receipts	<u>2,303,735</u>	<u>788,634</u>	<u>3,092,369</u>
Disbursements:			
Public safety	185,464	--	185,464
Public works	392,235	--	392,235
Culture and recreation	469,280	--	469,280
Community and economic development	384,179	--	384,179
General government	227,687	--	227,687
Debt service	249,305	--	249,305
Business type activities	--	806,059	806,059
Total disbursements	<u>1,908,150</u>	<u>806,059</u>	<u>2,714,209</u>
Excess (deficiency) of receipts over (under) disbursements	395,585	( 17,425)	378,160
Other financing sources (uses), net	<u>19,800</u>	<u>108,443</u>	<u>128,243</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	415,385	91,018	506,403
Balances beginning of year	<u>1,848,959</u>	<u>990,637</u>	<u>2,839,596</u>
Balances end of year	<u>\$ 2,264,344</u>	<u>\$ 1,081,655</u>	<u>\$ 3,345,999</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
\$ 832,823	\$ 832,823	\$ 25,056
294,600	294,600	10,397
251,286	279,299	2,955
13,500	14,500	( 548)
25,550	25,550	1,797
280,494	590,745	( 46,341)
887,120	896,126	( 14,049)
152,734	174,352	5,107
<u>2,738,107</u>	<u>3,107,995</u>	<u>( 15,626)</u>
186,904	190,848	5,384
429,389	458,538	66,303
506,139	533,813	64,533
460,084	580,097	195,918
164,560	430,227	202,540
249,305	249,305	--
725,136	857,315	51,256
<u>2,721,517</u>	<u>3,300,143</u>	<u>585,934</u>
16,590	( 192,148)	570,308
<u>--</u>	<u>3,944</u>	<u>124,299</u>
16,590	( 188,204)	694,607
<u>3,616,596</u>	<u>3,616,596</u>	<u>( 777,000)</u>
<u>\$ 3,633,186</u>	<u>\$ 3,428,392</u>	<u>\$ ( 82,393)</u>

CITY OF KALONA, IOWA  
NOTES TO OTHER INFORMATION -  
BUDGETARY REPORTING

June 30, 2016

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted included disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$578,626. The budget amendment is reflected in the final budgeted amount.

See accompanying independent auditor's report.

CITY OF KALONA, IOWA  
 SCHEDULE OF THE CITY'S PROPORTIONATE SHARE  
 OF THE NET PENSION LIABILITY  
 IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
 FOR THE LAST TWO YEARS\*  
 (IN THOUSANDS)

OTHER INFORMATION

	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.006193%	0.005670%
City's proportionate share of the net pension liability	\$ 306	\$ 229
City's covered-employee payroll:	\$ 424	\$ 379
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	72.17%	60.42%
IPERS' net position as a percentage of the total pension liability	85.19%	87.61%

\* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding year.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See accompanying independent auditor's report.

CITY OF KALONA, IOWA

SCHEDULE OF CITY CONTRIBUTIONS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
LAST 10 FISCAL YEARS  
(IN THOUSANDS)

OTHER INFORMATION

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution	\$ 39	\$ 38	\$ 34	\$ 36
Contributions in relation to the statutorily required contribution	( 39)	( 38)	( 34)	( 36)
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
City's covered-employee payroll	\$ 432	\$ 424	\$ 379	\$ 410
Contributions as a percentage of covered-employee payroll	9.03%	8.96%	8.97%	8.78%

See accompanying independent auditor's report.



<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 32	\$ 30	\$ 26	\$ 23	\$ 20	\$ 18
( 32)	( 30)	( 26)	( 23)	( 20)	( 18)
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
\$ 392	\$ 432	\$ 395	\$ 364	\$ 330	\$ 315
8.16%	6.94%	6.58%	6.32%	6.06%	5.71%

CITY OF KALONA, IOWA  
NOTES TO OTHER INFORMATION - PENSION LIABILITY  
YEAR ENDED JUNE 30, 2016

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups - emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

\* \* \*

See accompanying independent auditor's report.

## SUPPLEMENTARY INFORMATION

CITY OF KALONA, IOWA  
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
 AND CHANGES IN CASH BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2016

	Special Revenue Employee Benefits	Total
Receipts:		
Property tax	\$ 99,891	\$ 99,891
Other city tax	1,677	1,677
Total receipts	<u>101,568</u>	<u>101,568</u>
Disbursements:		
Operating:		
Public works	20,937	20,937
Culture and recreation	45,061	45,061
General government	<u>16,279</u>	<u>16,279</u>
Total disbursements	<u>82,277</u>	<u>82,277</u>
Excess of receipts over disbursements	19,291	19,291
Other financing sources:		
Operating transfers	<u>--</u>	<u>--</u>
Total other financing sources	<u>--</u>	<u>--</u>
Net change in cash balances	19,291	19,291
Cash balances beginning of year	<u>29,923</u>	<u>29,923</u>
Cash balances end of year	<u>\$ 49,214</u>	<u>\$ 49,214</u>
Cash Basis Fund Balances		
Restricted:		
Other purposes	<u>\$ 49,214</u>	<u>\$ 49,214</u>
Total cash basis fund balances	<u>\$ 49,214</u>	<u>\$ 49,214</u>

See accompanying independent auditor's report.

CITY OF KALONA, IOWA  
SCHEDULE OF INDEBTEDNESS  
Year ended June 30, 2016

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Capital Loan Notes: Library	June 1, 2004	1.30% - 2.65%	\$ 1,400,000
General Obligation Capital Loan Notes: Series 2010	November 15, 2010	2.75%	1,600,000
Total General Obligation Notes			
Revenue Notes Payable: State revolving fund loans			
Water	August 26, 2003	1.75%	1,067,000
Sewer	December 12, 2003	1.75%	503,000
Sewer	November 26, 2008	3.00%	1,200,000
Sewer	October 3, 2014	2.00%	1,124,000
Total SRF loans			
Total			

See accompanying independent auditor's report.

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 750,000	\$ --	\$ 70,000	\$ 680,000	\$ 17,105	\$ 1,318
<u>160,000</u>	<u>--</u>	<u>160,000</u>	<u>--</u>	<u>2,200</u>	<u>--</u>
<u>910,000</u>	<u>--</u>	<u>230,000</u>	<u>680,000</u>	<u>19,305</u>	<u>1,318</u>
559,000	--	55,000	504,000	9,783	1,243
264,000	--	26,000	238,000	4,620	587
1,042,000	--	29,000	1,013,000	31,260	2,498
<u>949,757</u>	<u>128,243</u>	<u>47,000</u>	<u>1,031,000</u>	<u>19,946</u>	<u>2,542</u>
<u>2,814,757</u>	<u>128,243</u>	<u>157,000</u>	<u>2,786,000</u>	<u>65,609</u>	<u>6,870</u>
<u>\$3,724,757</u>	<u>\$ 128,243</u>	<u>\$ 387,000</u>	<u>\$ 3,466,000</u>	<u>\$ 84,914</u>	<u>\$ 8,188</u>

CITY OF KALONA, IOWA  
BOND AND NOTE MATURITIES  
June 30, 2016

Year ending June 30,	General Obligation Notes GO Capital Loan Notes - Library Note Issued June 1, 2004		
	Interest Rates	Amount	Total
2017	1.95%	\$ 70,000	\$ 70,000
2018	2.05%	75,000	75,000
2019	2.15%	80,000	80,000
2020	2.25%	85,000	85,000
2021	2.35%	85,000	85,000
2022-2026	2.45-2.65%	285,000	285,000
		<u>\$ 680,000</u>	<u>\$ 680,000</u>

Year ending June 30,	State Revolving Funds Notes			
	Sewer Issued December 12, 2003		Water Issued August 26, 2003	
	Interest Rates	Amount	Interest Rates	Amount
2017	1.75%	\$ 27,000	1.75%	\$ 57,000
2018	1.75%	28,000	1.75%	58,000
2019	1.75%	28,000	1.75%	60,000
2020	1.75%	29,000	1.75%	62,000
2021	1.75%	30,000	1.75%	64,000
2022-2026	1.75%	96,000	1.75%	203,000
2027-2031	--	--		--
2032-2036	--	--		--
2037-2039	--	--		--
		<u>\$ 238,000</u>		<u>\$ 504,000</u>

See accompanying independent auditor's report.

State Revolving Funds Notes				
Sewer Issued November 26, 2008		Sewer Issued October 3, 2014		
Interest Rates	Amount	Interest Rates	Amount	Total
3.00%	\$ 30,000	2.00%	\$ 48,000	\$ 162,000
3.00%	31,000	2.00%	49,000	166,000
3.00%	32,000	2.00%	50,000	170,000
3.00%	33,000	2.00%	51,000	175,000
3.00%	34,000	2.00%	52,000	180,000
3.00%	190,000	2.00%	276,000	765,000
3.00%	223,000	2.00%	306,000	529,000
3.00%	262,000	2.00%	199,000	461,000
3.00%	178,000	2.00%	--	178,000
	<u>\$1,013,000</u>		<u>\$ 1,031,000</u>	<u>\$2,786,000</u>



CITY OF KALONA, IOWA  
SCHEDULE OF RECEIPTS BY SOURCE AND  
DISBURSEMENTS BY FUNCTION -  
ALL GOVERNMENTAL FUNDS  
For the Last Ten Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Receipts:				
Property tax	\$ 857,879	\$ 865,345	\$ 689,759	\$ 775,523
Tax increment financing	304,997	223,266	470,550	228,218
Other city tax	282,254	260,652	257,309	245,835
Licenses and permits	12,652	17,331	14,280	14,626
Use of money and property	26,390	30,647	125,745	27,828
Intergovernmental	544,404	389,233	261,134	226,295
Charges for service	106,950	125,164	142,318	119,707
Miscellaneous	<u>168,209</u>	<u>173,160</u>	<u>704,522</u>	<u>431,458</u>
Total	<u>\$ 2,303,735</u>	<u>\$ 2,084,798</u>	<u>\$ 2,665,617</u>	<u>\$ 2,069,490</u>
Disbursements:				
Operating:				
Public safety	\$ 185,464	\$ 172,091	\$ 421,310	\$ 164,143
Public works	392,235	388,862	311,845	315,146
Culture and recreation	469,280	637,566	513,047	572,556
Community and economic development	384,179	546,587	415,230	444,609
General government	227,687	237,726	170,173	160,748
Debt service	<u>249,305</u>	<u>414,243</u>	<u>424,115</u>	<u>433,923</u>
Total	<u>\$ 1,908,150</u>	<u>\$ 2,397,075</u>	<u>\$ 2,255,720</u>	<u>\$ 2,091,125</u>

See accompanying independent auditor's report.

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 736,263	\$ 711,674	\$ 755,896	\$ 698,056	\$ 675,362	\$ 668,988
323,223	267,667	187,925	215,652	103,253	222,404
240,511	225,123	231,494	214,175	244,718	233,659
10,934	10,493	13,194	18,053	6,335	4,228
36,308	42,711	63,930	49,743	75,555	203,833
706,758	258,583	242,173	353,212	371,898	226,786
112,702	125,762	120,790	86,906	92,198	83,288
<u>404,703</u>	<u>673,283</u>	<u>253,591</u>	<u>167,519</u>	<u>216,591</u>	<u>64,000</u>
<u>\$ 2,571,402</u>	<u>\$ 2,315,296</u>	<u>\$ 1,868,993</u>	<u>\$ 1,803,316</u>	<u>\$ 1,785,910</u>	<u>\$ 1,707,186</u>
\$ 165,258	\$ 154,178	\$ 158,602	\$ 156,819	\$ 167,840	\$ 142,978
457,959	189,054	462,789	185,787	395,722	481,566
471,200	482,032	641,988	457,115	502,739	370,763
234,995	130,358	706,375	364,541	485,000	348,316
893,300	2,834,706	794,759	144,508	399,324	186,825
<u>447,876</u>	<u>285,455</u>	<u>28,030</u>	<u>24,268</u>	<u>25,340</u>	<u>26,248</u>
<u>\$ 2,670,588</u>	<u>\$ 4,075,783</u>	<u>\$ 2,792,543</u>	<u>\$ 1,344,030</u>	<u>\$ 1,975,965</u>	<u>\$ 1,556,696</u>

## COMMENTS AND RECOMMENDATIONS

# Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Kalona, Iowa, as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 15, 2016. Our report expressed qualified and unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

## **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Kalona's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Kalona's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Kalona's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To the Honorable Mayor and  
Members of the City Council

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies: 16-I-A.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Kalona's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings and Responses.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### **Responses to the Findings**

The City of Kalona's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The City of Kalona's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control over compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gmewoll, Ben, Kyhan & Co. P.C.

Atlantic, Iowa  
December 15, 2016

CITY OF KALONA, IOWA  
Schedule of Findings and Responses  
Year ended June 30, 2016

PART I: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

16-I-A Segregation of Duties: One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. However, because there are a limited number of people that have the primary responsibility for the accounting and financial duties, those aspects of internal accounting control which rely upon an adequate segregation of duties are missing in the City.

Recommendation: We recommend that the City review its control procedures to obtain the maximum internal control possible under the circumstances and the Council be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: Since there are only two employees at city hall, it is difficult to segregate duties. Duties are segregated to the best of our ability.

Conclusion: Response accepted.

\* \* \*

CITY OF KALONA, IOWA  
Schedule of Findings and Responses  
Year ended June 30, 2016

PART II: Other Findings Related to Statutory Reporting

16-II-A Certified Budget: Disbursements during the year ended June 30, 2016 did not exceed the amounts budgeted.

16-II-B Questionable Disbursements: During the audit, we did not note any disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

16-II-C Travel Expense: No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

16-II-D Business Transactions: In accordance with Chapter 362.5(10) of the Code of Iowa, no transactions between the City and the City officials and City employees were noted that represented conflicts of interest.

16-II-E Bond Coverage: Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

16-II-F Council Minutes: No transactions were found that we believe should have been approved in the Council minutes but were not.

16-II-G Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.

16-II-H Revenue Bonds and Notes: No instances of non-compliance with the revenue bond and note resolutions were noted.

16-II-I Capital Projects Fund: The City has not properly used the Capital Projects Fund to pay for long-term capital projects they incurred throughout the year.

Recommendation: The City should utilize the Capital Projects Fund for the various projects they incur throughout the year. These expenditures should be budgeted and reported as capital projects disbursements.

Response: We will consider using Capital Projects fund in the future.

Conclusion: Response accepted.

CITY OF KALONA, IOWA  
Schedule of Findings and Responses  
Year ended June 30, 2016

PART II: Other Findings Related to Statutory Reporting - Continued

16-II-J Tax Increment Financing: Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid. Urban Renewal Area TIF Indebtedness was certified to the County Auditor before December 1 and no exceptions were noted.

16-II-K Urban Renewal Annual Report: The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1, however, the ending cash balance and LMI expenditures per the urban renewal annual report do not agree with the City's records.

Recommendation: The City should correct the urban renewal annual reports to agree with the City's records.

Response: The report will be corrected.

Conclusion: Response accepted.

16-II-L Unclaimed Property Report: The City appears to have unclaimed property in accordance with Chapter 556.1(12) of the Code of Iowa, but did not report the unclaimed property to the State Treasurer annually by November 1 as required by Chapter 556.11 of the Code of Iowa.

Recommendation: The City should comply with the identification and reporting of unclaimed property in accordance with Chapters 556.1(12) and 556.11 of the Code of Iowa.

Response: We will review the requirements for reporting unclaimed property in accordance with Chapters 556.1(12) and 556.11 of the Iowa Code for compliance in the future.

Conclusion: Response accepted.

\* \* \*